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Province of Quebec

Canada Mortgage and Housing Corporation

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FIRST QUARTER 2005

Residential construction in Quebec declines in the first quarter

After having posted gains of 12 per cent in the third quarter and 11 per cent in the fourth, residential construction in Quebec went down by 10 per cent in the first quarter of 2005, compared to the same period last year. This decline extended to the three main market segments (freehold, condominium and rental), in three of the six census metropolitan areas (CMAs), as well as in about half of the other urban centres. In fact, following an increase of 19 per cent in 2003, the slowdown in residential construction in Quebec, which began during the second half of 2004, continued and resulted in 8,798 housing starts in the first quarter of 2005.

Regional results

While around 50 per cent of Quebec's urban areas registered decreases in housing starts in relation to the first quarter of 2004, the greatest share of the provincial decline was attributable to the situation prevailing in the CMAs, where a drop of 16 per cent (-1,195 starts) was observed, in comparison with the period from

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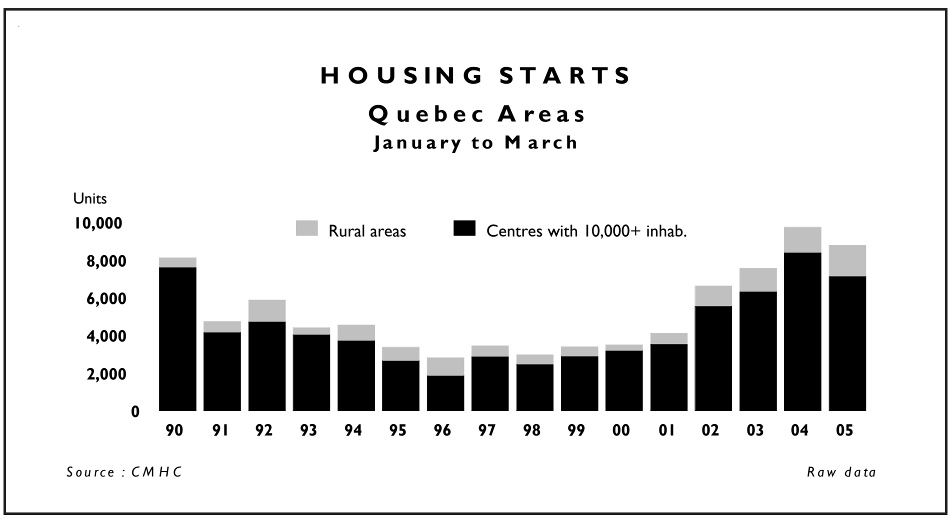

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January to March 2004. The CMA that contributed the most to this situation was Montréal, which recorded decreases of 17 per cent in the freehold and rental segments and 25 per cent in the condominium category, for a total of 4,416 housing starts, compared to the 5,492 new units enumerated at the same time last year. The other area that contributed to this negative result was Gatineau, which, following an exceptional first quarter last year, registered much lower construction levels in all categories (rental: -76 per cent, condominium: -64 per cent, freehold: -37 per cent). Lastly, for the decreases in activity, the Sherbrooke area saw its quarterly result go down on account of a significant decline in rental housing starts (to 35 units, compared to 152 in the first quarter of 2004).

During the same period, a totally different situation prevailed in the Québec CMA. Not only did this area post a higher level of starts in the first quarter but it also saw construction pick up the pace, particularly in the freehold market and the condominium segment, where activity went up by 89 per cent in relation to the first three months of 2004. To a lesser extent, the Trois-Rivières and Saguenay areas registered increases in starts, thanks to the start-up of some rental housing projects.

While, overall, a situation similar to that which prevailed in the CMAs may have also existed in the census agglomerations (CAs), that is, centres with 10,000 to 99,999 inhabitants, an analysis of the results revealed a contrast between freehold home building (up by 21 per cent) and rental housing construction, where the decrease of 44 per cent (concentrated in the apartment segment) in relation to the first quarter of 2004 tipped the total to the negative side during this period (-8 per cent).

Resale market: signs of change

According to the results released by the Canadian Real Estate Association (CREA), Quebec recorded 19,654 sales through the Service inter-agences / Multiple Listing Service (S.I.A.® / MLS®) in the first quarter of 2005, compared to 19,939 during the same period in 2004. This result therefore marks a continuation of the decline that began on this market in the fourth quarter of 2004, and appears to have put an end to the rise in S.I.A.® / MLS® transactions observed in recent years. Also according to CREA, it would seem that the average price of these transactions went up by 8.8 per cent over this same period to $177,194. This latest result therefore brought down the increase below the 10-per-cent mark, after three consecutive years of price hikes above this level. As we still consider that the rise in prices is due to market fundamentals, and we are still not retaining the hypothesis that the market is in a speculative bubble. As for new listings, CREA reported an increase of 10 per cent, in line with the upward trend of the last two years. Most markets are still qualified as seller's markets in the CMAs, but recent trends (slowdown in transactions, rise in listings and smaller increase in prices) suggest that a return toward a more balanced situation is under way.

Rental market gradually easing

Although no formal data has been compiled since the last annual survey was conducted in October 2004 (which revealed a slight rise in vacancy rates in most CMAs, relative stability in centres with 50,000 to 100,000 inhabitants, and easier conditions in several of the smaller urban agglomerations), the decline in rental housing construction in the last quarter, the fact that the price increases on the homeowner and condominium markets have, in some cases, been giving the edge back to renting, the weak growth in youth and part-time employment and the continued high immigration levels are all factors that will slow down any future easing on this market.

Economy: moderate growth

Other than the explanations that are more strictly related to the market (increased supply on the resale market, higher inventories on the new home market, continued strong growth in prices), the recent slowdown on the housing markets was largely due to the more moderate economic conditions that prevailed in previous periods, notably the slower employment growth. But, while the economy may not be as vigorous, the fundamental indicators are still not free-falling, which should result in relatively high demand levels, when compared to recent history.

The latest figures for 2005 put the increase in the real GDP at basic prices at 2.5 per cent over the same period in 2004. For Canada (which benefits from more recent data), this rate is 3.4 per cent. Even though manufacturing recently posted a marginal rise, this sector continues to suffer from a weak demand, particularly for aerospace products. While domestic demand remains relatively steady, private fixed capital investment is picking up the pace, whereas (real) current government expenditures are limited to the health and education sectors. Even though Quebec exports started to show renewed activity in 2004, they are still suffering from the relative strength of the Canadian dollar in relation to the U.S. dollar. In this context, the bumpy road taken by the labour market in 2003, and pursued in 2004, still continues. Employment now shows a gain of 1.7 per cent in comparison with the first quarter of 2004.

The data for the first three months of 2005 revealed a picture similar to that which emerged in 2004, that is, more marked increases in full-time positions and jobs for people aged from 45 to 64 years. The relatively stronger growth in full-time employment will provide greater support for the homeowner (freehold and condominium) housing markets. The results by age group, for their part, may affect the markets that target more experienced buyers.

While youth employment was down in 2004, the first-quarter results showed renewed growth (3.5 per cent among employees aged from 15 to 24 years). If these results turn into a trend, we will then be able to anticipate a greater rental housing demand during the year. That being said, it should be recalled that part-time employment (another indicator of rental housing demand) has been on the decline so far in 2005, which could very well offset the stimulus generated by the growth in youth employment.

Considering the lag that exists between changes in employment and housing demand, the slowdown that has been observed in Quebec since 2003 will continue to have an impact on construction over the coming years.

Despite consecutive monthly fluctuations in the consumer confidence index, the level is still relatively high. On April 12, the Bank of Canada announced that it was maintaining its target for the overnight rate at 2.5 per cent. Given the relatively low risk of inflation and the fact that the Canadian economy is nearing its potential, CMHC is forecasting mortgage rate increases of about 50 basis points in 2005 and 2006.

Migration: an important engine for housing demand

According to the latest Statistics Canada data, released a few weeks ago, Quebec posted a net level of 4,132 migrants during the last three months of 2004, for an increase of 21 per cent over the same period in 2003. This result brought the annual total to 33,299, for a gain of 6 per cent in relation to 2003 and the highest total since 1988 (see table and graph).

Migration in 2004 was marked by two features: first, a faster pace of immigration, which surpassed 44,000 and led to a 12-per-cent rise over the previous year and, second, at the interprovincial level, after having recorded a small gain in 2003 (the first since 1962), Quebec lost over 2,000 residents to other Canadian provinces.

While the high international migration level will have mainly affected the rental market on the Island of Montréal, we can assume that the outlying area will also have benefited, as we know that a growing number of newcomers settle off the Island. But, for housing in general, there is no denying that the strong growth in migration in recent years has had, and will continue to have, a major impact. It should be noted that, since 2001, migration has added over 120,000 residents to the population of Quebec. While the latest Statistics Canada census figures indicate that these newcomers remain renters for several years, other recent compilations inform us that the profile of immigrants is changing and that they are more rapidly becoming home buyers.

While interregional migration shows a net level of zero at the provincial level, the latest results reveal that certain trends will be maintained and will have undeniable effects for several centres across Quebec. First, migration from Montréal to the extended suburbs (Laval, Lanaudière, Laurentides, Montérégie) continues to grow. In fact, according to the Institut de la statistique du Québec, the number of people leaving Montréal for these regions went up from about 1,000 in 1998-1999 to over 24,000 in 2003-2004. Also, it should be noted that, for the 2003-2004 period, there was a positive net level of around 4,000 people for the so-called "intermediate" zone (Québec, Outaouais, Estrie, Mauricie, etc.) and a negative level of approximately 4,000 people for the so-called "remote" area (Gaspésie, Abitibi, Nord-du-Québec).

Definition and Concepts

Intended Markets - There are three: the Freehold market refers to Single-Family Houses (Detached, Semi-Detached and Row) owned under freehold tenure; the condominium segment comprises houses and apartments held under divided co-ownership; and finally the rental market encompasses apartment dwellings.

Housing Starts - refer to the beginning of construction work on a building, usually when the concrete has been laid for the entire footing around the structure, or at an equivalent stage where a basement will not be a part of the structure.

Under Construction - units that have been started but that are not completed. The number of units under construction at the end of a period may take into account certain adjustments that took place, for various reasons, after the starts were reported.

Completions - units where all proposed construction work has been performed or, in some cases, where ninety percent of all construction work is completed and the structure is fit for occupancy.

Unoccupied Units - new completed units that have remained unoccupied.

Total Medium-Term Supply - total supply of new units including units under construction, units that are completed but not occupied and permits issued but not started.

Absorptions - newly completed units that have been sold or rented. The number of absorptions is obtained from a survey initiated when the structure is completed. Units presold or pre-leased are not included until the completion stage. The number of absorbed units is the number of completed and unoccupied units from the previous quarter plus completions for the current month minus completed and unoccupied units for the current month.

Duration of Inventory - period necessary for the absorption of unoccupied units, i.e. the ratio between unoccupied units and absorbed units (average for the last twelve months). This figure is expressed in months.

Seasonally Adjusted Annual Rates (SAAR) - raw monthly figures, adjusted to remove normal seasonal variation and multiplied by 12.

Table 1
Summary of Activity by Area and by Intended Market
Province of Quebec

Activity / Area	*Ownership (Freehold* & Condominium)*		*Rental*		*Total*	
	1st Q 2005	*1st Q 2004*	*1st Q 2005*	*1st Q 2004*	*1st Q 2005*	*1st Q 2004*
Starts						
Metropolitan areas (1)	4,815	5,817	1,572	1,765	6,387	7,582
Urban areas (2)	562	466	203	364	765	830
Rural areas (3)	n.a.	n.a.	n.a.	n.a.	1,646	1,362
Total - Province of Quebec	***n.a.***	***n.a.***	***n.a.***	***n.a.***	***8,798***	***9,774***
Completions						
Metropolitan areas (1)	4,411	4,299	1,606	1,637	6,017	5,936
Urban areas (2)	754	717	302	275	1,056	992
Rural areas (3)	n.a.	n.a.	n.a.	n.a.	1,256	2,653
Total - Province of Quebec	***n.a.***	***n.a.***	***n.a.***	***n.a.***	***8,329***	***9,581***
Under construction*						
Metropolitan areas (1)	15,231	13,742	7,394	5,204	22,625	18,946
Urban areas (2)	948	657	877	924	1,825	1,581
Rural areas (3)	n.a.	n.a.	n.a.	n.a.	3,888	1,729
Total - Province of Quebec	***n.a.***	***n.a.***	***n.a.***	***n.a.***	***28,338***	***22,256***

Source: CMHC
** Refers to single-family houses (single-detached, semi-detached and row homes) owned under freehold tenure and owner-occupied duplexes*
*** At the end of the period shown*

(1) Population of 100,000 or more
(2) Population between 10,000 and 99,999
(3) Population of 9,999 or less

Table 2
Economic Overview
Province of Quebec

	2005	*2004*	*2004*	*2004*	*2004*
	1st Quarter	*4th Quarter*	*3rd Quarter*	*2nd Quarter*	*1st Quarter*
Gross domestic product (%)	2.3	2.3	2.7	2.4	2.2
Employment level - total* (000)	3,716	3,712	3,694	3,684	3,657
Employment rate* (%)	60.4	60.5	60.4	60.4	60.1
Unemployment rate* (%)	8.2	8.7	8.3	8.2	8.7
Inflation rate (%)	n.a.	2.7	0.7	3.5	3.9
Net migration	n.a.	4,132	10,427	10,237	8,503
Mortgage rates (%) - Canada					
1-year	4.9	4.9	4.6	4.6	4.3
5-year	6.1	6.3	6.4	6.5	5.9
Resale market (MLS sales) Total residential units	n.a.	15,007	14,177	20,494	19,939
Index of Consumer Confidence* (1991=100)	123.3	116.5	121.3	121.1	125.3

Sources: Statistics Canada, Conference Board of Canada, Canadian Real Estate Association
** Seasonally adjusted annual rates*

Table 3
Housing Starts by Metropolitan Area and by Intended Market
Province of Quebec

Area / Period	*Ownership*		*Rental*	*Total*
	Freehold	*Condominium*		
Saguenay				
First quarter 2005	16	0	22	38
First quarter 2004	16	7	0	23
Year-to-date 2005 (Jan.-Mar.)	16	0	22	38
Year-to-date 2004 (Jan.-Mar.)	16	7	0	23
Gatineau				
First quarter 2005	207	97	18	322
First quarter 2004	327	271	75	673
Year-to-date 2005 (Jan.-Mar.)	207	97	18	322
Year-to-date 2004 (Jan.-Mar.)	327	271	75	673
Montréal				
First quarter 2005	1,956	1,477	983	4,416
First quarter 2004	2,343	1,970	1,179	5,492
Year-to-date 2005 (Jan.-Mar.)	1,956	1,477	983	4,416
Year-to-date 2004 (Jan.-Mar.)	2,343	1,970	1,179	5,492
Québec				
First quarter 2005	622	281	418	1,321
First quarter 2004	562	149	323	1,034
Year-to-date 2005 (Jan.-Mar.)	622	281	418	1,321
Year-to-date 2004 (Jan.-Mar.)	562	149	323	1,034
Sherbrooke				
First quarter 2005	96	20	35	151
First quarter 2004	59	26	152	237
Year-to-date 2005 (Jan.-Mar.)	96	20	35	151
Year-to-date 2004 (Jan.-Mar.)	59	26	152	237
Trois-Rivières				
First quarter 2005	43	0	96	139
First quarter 2004	87	0	36	123
Year-to-date 2005 (Jan.-Mar.)	43	0	96	139
Year-to-date 2004 (Jan.-Mar.)	87	0	36	123
TOTAL - METROPOLITAN AREAS				
First quarter 2005	2,940	1,875	1,572	6,387
First quarter 2004	3,394	2,423	1,765	7,582
Year-to-date 2005 (Jan.-Mar.)	2,940	1,875	1,572	6,387
Year-to-date 2004 (Jan.-Mar.)	3,394	2,423	1,765	7,582

Source: CMHC

Table 4 Under Construction and Completions by Metropolitan Area and by Intended Market Province of Quebec								
Area / Period	**Under Construction***				**Completions**			
	Ownership		**Rental**	**Total**	**Ownership**		**Rental**	**Total**
	Freehold	**Condo-minium**			**Freehold**	**Condo-minium**		
Saguenay								
First quarter 2005	49	0	33	82	27	0	23	50
First quarter 2004	38	0	7	45	20	0	0	20
Gatineau								
First quarter 2005	476	420	79	975	392	89	66	547
First quarter 2004	304	456	204	964	576	24	143	743
Montréal								
First quarter 2005	4,297	8,035	5,755	18,087	2,019	1,003	1,116	4,138
First quarter 2004	4,654	6,900	4,245	15,799	1,878	940	968	3,786
Québec								
First quarter 2005	910	806	1,270	2,986	515	225	270	1,010
First quarter 2004	571	633	483	1,687	530	166	398	1,094
Sherbrooke								
First quarter 2005	105	72	187	364	85	3	36	124
First quarter 2004	83	26	202	311	75	8	89	172
Trois-Rivières								
First quarter 2005	55	6	70	131	53	0	95	148
First quarter 2004	71	6	63	140	82	0	39	121
TOTAL - METROPOLITAN AREAS								
First quarter 2005	5,892	9,339	7,394	22,625	3,091	1,320	1,606	6,017
First quarter 2004	5,721	8,021	5,204	18,946	3,161	1,138	1,637	5,936

** At the end of the period shown*

Source: CMHC

NOTE TO READERS: Prior to July 2002, the CMHC Starts and Completions Survey consisted of a monthly enumeration of new housing activity in urban centres with a population of 10,000 persons and over. As of July 2002, the survey will be conducted monthly in urban centres with a population of 50,000 persons and over and quarterly in urban centres with a population of 10,000 to 49,999 persons. Statistical models will be used to estimate provincial and national housing starts in urban centres with a population of 10,000 persons and over, on a monthly basis. The methodology is unchanged for estimating housing starts in rural areas (areas other than urban centres with a population of 10,000 persons and over). In these areas, a sample survey is used on a quarterly basis. As was the case in the past, statistical models continue to be used to estimate national housing starts in all areas on a monthly basis.

Table 5 Housing Starts for Centres with 50,000 to 99,999 Inhabitants Province of Quebec				
	Ownership			
Centre / Period	Freehold	Condominium	Rental	Total
Drummondville				
First quarter 2005	55	0	27	82
First quarter 2004	51	0	31	82
Year-to-date 2005 (Jan.-Mar.)	55	0	27	82
Year-to-date 2004 (Jan.-Mar.)	51	0	31	82
Granby				
First quarter 2005	95	14	11	120
First quarter 2004	87	3	47	137
Year-to-date 2005 (Jan.-Mar.)	95	14	11	120
Year-to-date 2004 (Jan.-Mar.)	87	3	47	137
Saint-Jean-sur-Richelieu				
First quarter 2005	125	0	22	147
First quarter 2004	89	4	86	179
Year-to-date 2005 (Jan.-Mar.)	125	0	22	147
Year-to-date 2004 (Jan.-Mar.)	89	4	86	179
Shawinigan				
First quarter 2005	16	0	4	20
First quarter 2004	9	0	0	9
Year-to-date 2005 (Jan.-Mar.)	16	0	4	20
Year-to-date 2004 (Jan.-Mar.)	9	0	0	9

Source: CMHC

Table 6 Housing Starts for Centres with 10,000 to 49,999 Inhabitants Province of Quebec				
	Ownership			
Centre / Period	Freehold	Condominium	Rental	Total
Alma				
First quarter 2005	0	0	6	6
First quarter 2004	5	0	0	5
Year-to-date 2005 (Jan.-Mar.)	0	0	6	6
Year-to-date 2004 (Jan.-Mar.)	5	0	0	5
Baie-Comeau				
First quarter 2005	0	0	0	0
First quarter 2004	0	0	0	0
Year-to-date 2005 (Jan.-Mar.)	0	0	0	0
Year-to-date 2004 (Jan.-Mar.)	0	0	0	0
Cowansville				
First quarter 2005	2	0	0	2
First quarter 2004	3	0	0	3
Year-to-date 2005 (Jan.-Mar.)	2	0	0	2
Year-to-date 2004 (Jan.-Mar.)	3	0	0	3
Dolbeau				
First quarter 2005	3	0	0	3
First quarter 2004	3	0	0	3
Year-to-date 2005 (Jan.-Mar.)	3	0	0	3
Year-to-date 2004 (Jan.-Mar.)	3	0	0	3

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Table 6 (cont.) Housing Starts for Centres with 10,000 to 49,999 Inhabitants Province of Quebec				
	Ownership			
Centre / Period	Freehold	Condominium	Rental	Total
Joliette				
First quarter 2005	37	0	28	65
First quarter 2004	24	0	81	105
Year-to-date 2005 (Jan.-Mar.)	37	0	28	65
Year-to-date 2004 (Jan.-Mar.)	24	0	81	105
Lachute				
First quarter 2005	13	0	0	13
First quarter 2004	6	0	0	6
Year-to-date 2005 (Jan.-Mar.)	13	0	0	13
Year-to-date 2004 (Jan.-Mar.)	6	0	0	6
La Tuque				
First quarter 2005	0	0	0	0
First quarter 2004	2	0	0	2
Year-to-date 2005 (Jan.-Mar.)	0	0	0	0
Year-to-date 2004 (Jan.-Mar.)	2	0	0	2
Magog				
First quarter 2005	25	8	0	33
First quarter 2004	21	6	53	80
Year-to-date 2005 (Jan.-Mar.)	25	8	0	33
Year-to-date 2004 (Jan.-Mar.)	21	6	53	80
Matane				
First quarter 2005	0	0	0	0
First quarter 2004	1	0	0	1
Year-to-date 2005 (Jan.-Mar.)	0	0	0	0
Year-to-date 2004 (Jan.-Mar.)	1	0	0	1
Rimouski				
First quarter 2005	21	0	0	21
First quarter 2004	10	0	10	20
Year-to-date 2005 (Jan.-Mar.)	21	0	0	21
Year-to-date 2004 (Jan.-Mar.)	10	0	10	20
Rivière-du-Loup				
First quarter 2005	13	0	10	23
First quarter 2004	3	0	0	3
Year-to-date 2005 (Jan.-Mar.)	13	0	10	23
Year-to-date 2004 (Jan.-Mar.)	3	0	0	3
Rouyn-Noranda				
First quarter 2005	0	0	0	0
First quarter 2004	0	0	0	0
Year-to-date 2005 (Jan.-Mar.)	0	0	0	0
Year-to-date 2004 (Jan.-Mar.)	0	0	0	0
Saint-Georges				
First quarter 2005	16	0	73	89
First quarter 2004	10	0	0	10
Year-to-date 2005 (Jan.-Mar.)	16	0	73	89
Year-to-date 2004 (Jan.-Mar.)	10	0	0	10

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Table 6 (cont.)
Housing Starts for Centres with 10,000 to 49,999 Inhabitants
Province of Quebec

Centre / Period	Ownership: Freehold	Ownership: Condominium	Rental	Total
Saint-Hyacinthe				
First quarter 2005	6	0	8	14
First quarter 2004	13	12	34	59
Year-to-date 2005 (Jan.-Mar.)	6	0	8	14
Year-to-date 2004 (Jan.-Mar.)	13	12	34	59
Salaberry-de-Valleyfield				
First quarter 2005	9	0	0	9
First quarter 2004	14	0	0	14
Year-to-date 2005 (Jan.-Mar.)	9	0	0	9
Year-to-date 2004 (Jan.-Mar.)	14	0	0	14
Sept-Îles				
First quarter 2005	0	0	0	0
First quarter 2004	4	0	0	4
Year-to-date 2005 (Jan.-Mar.)	0	0	0	0
Year-to-date 2004 (Jan.-Mar.)	4	0	0	4
Sorel				
First quarter 2005	24	9	0	33
First quarter 2004	9	12	4	25
Year-to-date 2005 (Jan.-Mar.)	24	9	0	33
Year-to-date 2004 (Jan.-Mar.)	9	12	4	25
Thetford-Mines				
First quarter 2005	5	0	0	5
First quarter 2004	3	0	0	3
Year-to-date 2005 (Jan.-Mar.)	5	0	0	5
Year-to-date 2004 (Jan.-Mar.)	3	0	0	3
Val-d'Or				
First quarter 2005	1	0	0	1
First quarter 2004	0	0	0	0
Year-to-date 2005 (Jan.-Mar.)	1	0	0	1
Year-to-date 2004 (Jan.-Mar.)	0	0	0	0
Victoriaville				
First quarter 2005	23	0	0	23
First quarter 2004	27	0	14	41
Year-to-date 2005 (Jan.-Mar.)	23	0	0	23
Year-to-date 2004 (Jan.-Mar.)	27	0	14	41
Other urban centres*				
First quarter 2005	42	0	14	56
First quarter 2004	35	0	4	39
Year-to-date 2005 (Jan.-Mar.)	42	0	14	56
Year-to-date 2004 (Jan.-Mar.)	35	0	4	39

Source: CMHC

* Amos, Gaspé, Montmagny, Roberval, Sainte-Marie, Saint-Félicien, Saint-Lin (2003) and Hawkesbury (Quebec Part)

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